

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CU-02 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AGRE-00 AID-05 EB-07 EPG-02 TRSE-00
STR-04 OMB-01 CEA-01 COME-00 FRB-03 XMB-02
OPIC-03 LAB-04 SIL-01 OES-07 FEA-01 ERDA-05 INT-05
/108 W

-----090547Z 126997 /15

R 090155Z JUN 77

FM USLO PEKING

TO SECSTATE WASHDC 7956

INFO AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1157

E.O. 11652: GDS

TAGS: ETRD CH US

SUBJ: PRC TRADE POLICY AND SINO-US TRADE

1. SUMMARY. THE PRC WILL INCREASE THE VOLUME OF ITS FOREIGN TRADE, BY 1978, BUT THE INCREASE IS LIKELY TO BE GRADUAL AND LIMITED. BECAUSE OF LAG TIME IN DELIVERIES, PRC TRADE IS LIKELY TO REMAIN IN SURPLUS BUT DEPRESSED THROUGH THIS YEAR. SIMILARLY, US EXPORTS ARE UNLIKELY TO RECOVER THIS YEAR; LONGER TERM PROSPECTS ARE GOOD, THOUGH NOT EXCITING. US OIL PURCHASES AND CHINESE FINANCING METHODS REMAIN WILD CARDS IN THE DECK. END SUMMARY.

2. AFTER EIGHT MONTHS UNDER THE HUA REGIME, A REVISED PRC FOREIGN TRADE POLICY IS TAKING DEFINITE FORM, WITH THE FOLLOWING MAIN ELEMENTS:

A) FIRM ACCEPTANCE OF A ROLE FOR FOREIGN
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TRADE IN CHINA'S ECONOMIC DEVELOPMENT WHILE MAINTAINING THE POLICY OF SELF-RELIANCE THAT HAS LIMITED CHINA'S FOREIGN TRADE TO LESS THAN FIVE PERCENT OF GNP IN THE PAST.

B) CONTINUED UNWILLINGNESS TO ACCEPT FOREIGN CREDITS DIRECTLY OR ON A LARGE SCALE. SOME EXPANSION OF INDIRECT CREDITS

(E.G., LONGER TERM SUPPLIER'S CREDITS, RECIPROCAL DEPOSITS, "OVERDRAFT" ARRANGEMENTS) MAY BE IN THE WORKS.

C) EXPANSION OF EXPORTS. THE PRC IS RESTRICTED BOTH BY STRUCTURAL INFLEXIBILITY AND BY FINANCIAL LIMITATIONS FROM A RAPID INCREASE IN TRADITIONAL EXPORTS, BUT AN AGGRESSIVE MARKETING EFFORT WILL ENSURE STEADY IF SLOW GROTH IN THESE COMMODITIES. A CLEAR COMMITMENT HAS BEEN MADE TO EXPAND PETROLEUM AND COAL EXPORTS.

D) IMPORTS WILL BE CONCENTRATED IN CAPITAL EQUIPMENT AIMED AT REDUCING TECHNOLOGICAL BOTTLENECKS. SOME "ESSENTIAL" CONSUMER PRODUCTS, SUCH AS GRAIN, SOYBEANS, AND SUGAR WILL ALSO BE IMPORTED.

3. THE RISE IN PRC EXPORTS WAS CHECKED BY NATURAL DISASTERS AND POLITICAL UNREST IN 1976, BUT PRC IMPORTS WERE HIT EVEN HARDER BY "RADICAL" ATTACKS. CONTRACTING FOR IMPORTS OF MACHINERY, WHOLE PLANTS, AND HIGH-TECHNOLOGY ITEMS VIRTUALLY CEASED IN EARLY 1976, AND THE FOREIGN TRADE PLAN WHICH WAS TO PROGRAM SUCH PURCHASES FOR 1976-80 WAS EVIDENTLY DISMANTLED. COMING AT A TIME WHEN THE PRC OTHERWISE SHOULD HAVE BEEN LAUNCHING A FRESH WAVE OF TECHNOLOGICAL IMPORTS, THE PRC'S FOREIGN TRADE BALANCE LURCHED VIOLENTLY FROM AN ESTIMATED \$450 MILLION HARD CURRENCY

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DEFICIT IN 1975 TO A SURPLUS OF SOME \$700 MILLION IN 1976.

4. THE UNPLANNED SURPLUS HAS PERSISTED THROUGH THE FIRST QUARTER OF 1977 AND IS LIKELY TO BE MAINTAINED THROUGHOUT 1977 AND PERHAPS INTO 1978. MACHINERY PURCHASES ARE ONCE MORE BEING MADE BY THE PRC, BUT DELIVERY LEAD TIME WILL DEFER THEIR EFFECT ON TRADE FIGURES. NEW WHOLE PLANT PURCHASES, WITH THEIR EVEN LONGER LEAD TIME, HAVE JUST BEGUN. WITH THE RECEDING OF THE DROUGHT DANGER, AGRICULTURAL IMPORTS IN CY 1977 ARE UNLIKELY TO SUBSTANTIALLY EXCEED THE HIGH LEVEL ALREADY CONTRACTED FOR.

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/108 W

-----090546Z 124628 /15

R 090155Z JUN 77

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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 1157

5. PROSPECTS FOR US-CHINA TRADE NEATLY
COMPLEMENT THE PRC'S OVERALL TRADE SITUATION.
IN 1976, AMERICAN EXPORTS TO CHINA FELL TO
ONLY \$135 MILLION. POLITICALLY-INSPIRED
DISCRIMINATION MAY HAVE PLAYED A PART, BUT
AS THE NEWCOMER IN THE MARKET, THE US WAS
IN ANY EVENT PARTICULARLY VULNERABLE TO THE
RADICALS' STRANGULATION OF IMPORTS.

6. PRC TRADE OFFICIALS IN RECENT MONTHS
HAVE TAKEN PAINS TO SHOW THAT, IN TRADE,
THE US IS NOW ON THE SAME FOOTING AS CHINA'S
OTHER TRADING PARTNERS, TELLING USLO
THAT PURCHASES OF BOTH US TECHNOLOGY AND
AGRICULTURAL PRODUCTS WERE BEING ACTIVELY
CONSIDERED BY PRC TRADING CORPORATIONS. AT
THE SAME TIME, THESE OFFICIALS CAUTIONED THIRD
COUNTRY DIPLOMATS THAT THERE COULD BE NO
"BIG" EXPANSION OF SINO-US TRADE BEFORE
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NORMALIZATION. IN THE PRESENT PERIOD OF
EXPANDING FOREIGN TRADE, US SHOULD BE ABLE
TO USE ITS POSITION AS THE RESIDUAL
SUPPLIER OF AGRICULTURAL COMMODITIES AND AS

THE BEST SOURCE FOR MANY HIGH-TECHNOLOGY PRODUCTS. IN SOME CASES (SOYBEANS, COTTON) THE US HAS ALREADY BEGUN TO DO SO. AGAIN, BECAUSE OF LAGS, RECOVERY MAY NOT BE IMMEDIATELY EVIDENT. THE \$43 MILLION US TRADE DEFICIT IN THE FIRST FOUR MONTHS OF 1977 SHOULD IMPROVE, BUT AN INCREASE OVER 1976 IN US EXPORTS THIS YEAR IS PROBABLY IMPOSSIBLE.

7. LONGER TERM PROSPECTS FOR US-CHINA TRADE ARE GOOD, THOUGH NOT EXCITING. TRADITIONAL CHINESE EXPORTS SHOULD CONTINUE TO INCREASE AT A MODEST RATE, AND TECHNOLOGICAL EXPORTS SHOULD PROVIDE THE US WITH A TRADE SURPLUS BEGINNING IN 1978. THE RELATIVELY LOW VOLUME OF OVERALL CHINESE FOREIGN TRADE WILL CONTINUE TO LIMIT SINO-US TRADE GROWTH, AS WILL THE SPECIAL TRADE RELATIONSHIP BETWEEN JAPAN AND CHINA.

8. TWO POSSIBILITIES, NEITHER LIKELY, COULD ALTER THE PICTURE: PRC ACCEPTANCE OF DIRECT CREDITS WOULD ALLOW A RAPID EXPANSION OF CHINESE IMPORTS, WITH CONCURRENT OPPORTUNITIES FOR US FIRMS. US PURCHASES OF CHINESE CRUDE OIL MIGHT HAVE A SIMILAR EFFECT, IN VIEW OF THE SURPLUS PROBABLY AVAILABLE FOR EXPORT IN THE NEXT FEW YEARS. THE CHINESE SENSITIVITY TO ADVERSE BILATERAL TRADE BALANCES MIGHT WORK SOMEWHAT IN FAVOR OF THE US IN THAT CASE. EVEN WITH SUCH
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DRASTIC STRUCTURAL CHANGES, HOWEVER, SINO-US TRADE WOULD REMAIN DISTINCTLY SECONDARY TO OUR POLITICAL RELATIONSHIP.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, POLICIES
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977PEKING01157
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770205-0534
Format: TEL
From: PEKING
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770673/aaaacmfs.tel
Line Count: 212
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Litigation Codes:
Litigation History:
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Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2214176
Secure: OPEN
Status: NATIVE
Subject: PRC TRADE POLICY AND SINO-US TRADE
TAGS: ETRD, CH, US
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/f4251782-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009